

Facilitating and Promoting Viable, Sustainable and Affordable Public Private Partnerships in Pakistan

COMPANY BRIEF

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MISSION STATEMENT

IPDF will promote and facilitate the closing of transactions involving private investment and management of public infrastructure, especially in the unregulated sectors at the provincial and municipal levels.

IPDF will be a catalyst to increase the number and volume of public infrastructures transactions that provide value for money for the beneficiaries while assuring that private sector providers are able to earn adequate returns for quality services.

Through the transactions and facilitation of policy making IPDF will also support the creation of an enabling policy environment and provide hands on knowledge transfer especially to the local Government level.

A. INTRODUCTION

1. The Government recognizes the importance of improving and expanding infrastructure services for sustaining economic and social development in its Medium Term Development Framework (2005-2010) (MTDF). Improved quality and service coverage in power and water supply, sewerage treatment, transport and logistics are vital for Pakistan's economy and the livelihood of its people. Tight fiscal constraints require innovative approaches - away from the traditional role of the Government as the service provider - to ensure that the massive investment needs are financed with the assistance of the private sector. The Government estimates that less than 50% of the infrastructure investment needs can be covered by public funds under the MTDF.

2. In order to facilitate private investment, the Ministry of Finance, Government of Pakistan, established the Infrastructure Project Development Facility (IPDF) in May 2006 to facilitate the preparation and closure of PPP transactions between public sponsors and private investors and to determine the funding gap for public funding for making transactions viable while minimizing the cost for the public through competitive bidding.

3. IPDF will provide expertise and hands on support to Implementing Agencies (line ministries, provincial Governments, local bodies, and state owned enterprises) in improving their PPP proposals, preparing them for tendering, and supervising the bidding process without becoming a contract signatory to a transaction.

4. A PPP policy Task Force (TF) composed of senior officials from Ministries and provinces, and advisors from the private sector, has been established. The TF will have a secretariat housed in the IPDF to coordinate its activities.

B. OBJECTIVES

5. IPDF's mandate is to:

- (i) facilitate the preparation and improvement of PPP proposals submitted by public implementing agencies to ensure that the projects are viable;
- (ii) ensure that only superior proposals with value for money will be supported;
- (iii) oversee the preparation and implementation of PPP projects consistent with prudent financial, environmental and social safeguards;
- (iv) build on the job experience of implementing agencies and private partners; and
- (v) provide the secretariat to the PPP Task Force, and coordinate with other agencies and public and private stakeholders.

6. IPDF's primary sector focus will be on the on PPP projects as follows:
 - (i) **Transport and logistics** including provincial and municipal roads, rail, seaports, airports, fishing harbours as well as warehousing, wholesale markets, seaports, slaughter houses and cold storage.
 - (ii) **Mass Urban Public Transport** including buses, and intra and inter-city rail.
 - (iii) **Municipal Services** including water supply and sanitation; solid waste management; low cost housing, and health / education facilities.
 - (iv) **Small Scale and Rural Energy Projects**

C. KEY FUNCTIONS

7. In order to deliver on its mission statement, IPDF will act as the principal facilitator and coordinator for PPPs in Pakistan, with focus on the following 'pillar' functions:

Pillar I: Provide transaction support to implementing agencies to structure viable PPP Projects that provide good value for money. This also entails (i) building public and private stakeholder awareness and skills, and (ii) feed back and assistance to the TF as its secretariat to create a suitable policy, legal and regulatory framework for PPPs.

Pillar II: Act as an independent evaluator and monitor, ensuring superiority of PPP projects to public funded alternatives in terms of service scope and delivery, effective to alleviate fiscal constraints, and in compliance with environmental, social and financial safeguards.

Pillar III: Act as an independent agent in determining the need for supplemental public grant funding to make PPP projects affordable and financially viable, while minimizing public grant funding through intelligent design and a competitive process.

Pillar IV: Recommend ready transactions for (i) long term loan financing (gap that cannot be provided by the market) at market terms to a proposed Infrastructure Project Financing, Facility, and (ii) Guarantees for MOF approval.

1. PPP Transaction support

8. IPDF will receive PPP applications from public implementing agencies (IAs). IPDF will constitute a project manager who will provide hands on assistance guiding the IAs in improving the design of PPP proposals through participation in their project 'steering committees' and oversight of IAs' recruitment and management of transaction advisors. IPDF will guide the IAs throughout the entire procurement life cycle, including technical, financial and legal due diligence - providing feedback and

improving and refining feasibility studies and tender documents. The feasibility studies will provide the benchmarks against which private sector proposals will be measured. IPDF's transaction assistance will be triggered by the demand of IAs to address their capacity constraints.

9. IPDF will assist the IAs in the recruitment and financing of qualified and experienced transaction advisors (preferably consortia of financial, legal, technical and project management firms), and in certain cases it will also fund their costs. The advisors will be remunerated on a success fee basis. IPDF will recover the financing of transaction advisors from the winning bidders as 'project development cost' and utilize the proceeds for funding future PPP projects.

10. **Registration of a PPP project** by the IA requires a covering letter by a person authorized to represent the IA to enter into a PPP agreement with the following information: (i) IA Name, (ii) project background, (iii) project rationale, justification and objectives, (iv) design and proposed implementation arrangements (including coverage of environmental and social safeguards) and time frame, and (v) initial cost estimate. After registration IPDF assigns a project manager, who assists the IA in the recruitment of a transaction advisor.

11. **Project origination** runs through the following steps the following process

- (i) **1st step. Needs and Options Analysis.** Transaction advisor conducts Needs and Options Analysis to determine the best solution to provide the service / build infrastructure. IPDF assists the IA in evaluating recommendations of the transaction advisor.
- (ii) **2nd step. Initial Viability Analysis.** Transaction advisor prepares a Pre-Feasibility Study including estimates of project costs and an initial indication whether the project is viable and affordable. IPDF assists the IA in evaluating recommendations of the transaction advisor.
- (iii) **3rd step. Technical, legal, environmental and financial due diligence.** Transaction Advisor conducts in-depth Legal, Technical, Site / Environmental, Market and Financial Due Diligence along with extensive stakeholder consultation. IPDF assists the Implementing Agency in managing the Transaction Advisor.
- (iv) **4th step. Affordability and value for money test.** The Transaction advisor prepares a Robust Financial Model to determine project viability, bankability, affordability and the value for money it offers compared to direct public procurement. This includes estimates of viability gap and the need for subsidies. IPDF assists the IA in this process.
- (v) **5th step. Market Test.** Transaction advisor conducts market testing through a competitive process to determine under which technical

conditions the market is willing to offer the services. IPDF assists the IA in reviewing the market test and the need for viability gap and other funding support by IPFF and determine the final PPP design parameters. The assigned IPDF project manager submits project to IPDF Project Feasibility Committee. Subsequent to IPDF Project Feasibility Committee endorsement, IPDF submits the proposal to a proposed Viability Gap Funding (VGF) Committee for approval in principle, and also informs the Infrastructure Project Financing Facility (IPFF) (also being established by the Ministry of Financing to fill the long term fixed rate local currency market gaps, if any). IPFF takes an active role on project financing from this point onwards.

- (vi) **6th step. Bidding.** IPDF assists IA conduct a competitive bidding process (and to determine the lowest grant requirement for a PPP project, if required).
- (vii) **7th step. Approval of Viability Gap funding (if required).** Based on IPDF's evaluation and Project Feasibility Committee endorsement, IPDF submits recommendation for VGF for approval by the VGF Committee.
- (viii) **8th step. Signing of Agreement and Financial Close** (and IA, private sponsor, and MOF sign tripartite project implementation agreement, if VGF involved).
- (ix) **9th step. Project Monitoring by IA** (and by IPDF for milestone based disbursements if VGF involved)

12. **Secretariat Support to the PPP policy TF.** IPDF will house the secretariat for the PPP policy TF. This has the benefit of seamless feed back from IPDF's transaction experience into the policy debate. Administrative functions include preparing meeting agendas and briefing notes, issuing notices, and taking minutes. The Secretariat will facilitate the composition and work of topic specific professional Working Groups (WGs) under the TF. The WGs will be composed by professionals (recruited by consulting contracts) in the respective area and will work under clearly defined and time-bound mandates to provide policy analysis, practical recommendations for implementation, and draft policies in a consultative process. The consultative process will build stakeholder and TF member consensus; development of consistent policy documents and focused action plans; and assist in implementing policy actions.